

Mine File: Burgin Mine

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ACT/049/009

CHIEF CONSOLIDATED MINING CO.
Eureka, Utah 84628

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DIVISION OF
OIL, GAS & MINING

DEAR SHAREHOLDER:

We are pleased to report to you a highly significant event relating to Sunshine's plans for a major reopening of your Company's Burgin Mine.

On October 24, 1986, a State of Utah environmental board authorized issuance of the final permit needed by Sunshine Mining Company before it could implement its plans for full development of the Burgin Mine. Sunshine has publicly stated its intention is to make the Burgin Mine a major producer of silver, zinc and lead. Issuance of all necessary environmental permits has taken two years. Since leasing the Burgin from Chief in October, 1980, Sunshine has expended in excess of \$10 million in its renovation, development and exploration work at the Burgin. Some limited ore production was initiated during the second quarter of 1986.

At the October 24th environmental hearing, Sunshine stated to Utah environmental officials that it plans to spend an additional \$45 million to enlarge and develop the Burgin for full production. It is expected that limited production will increase during 1987 and into 1988 until full production levels are reached. Sunshine also stated that when full production is achieved, it will employ between 400 to 500 workers at the Burgin Mine.

As of March, 1986, the proven and probable Burgin reserves reported by Sunshine were 1,021,666 tons of ore containing 22,254,629 ounces of silver, 381,921,320 pounds of lead and 131,296,500 pounds of zinc. During the third quarter of 1986, Sunshine initiated an underground drilling program that Sunshine believes will triple the previously reported proven and probable Burgin reserves.

Under the terms of Chief's lease of the Burgin Mine to Sunshine, Sunshine's capital costs and operating expenditures are not considered in the computation of Chief's royalties. The royalties are based upon a percentage of Sunshine's net smelter sales. Your Company thus participates in the benefits inherent in the production of precious and base metals (e.g. inflationary increases in metals prices) without being exposed to the corresponding risk of inflationary increases in the cost of production.

The resumption of substantial production from the Burgin Mine by Sunshine would result in significant royalty income to your Company. However, as of this date, Sunshine has not yet confirmed to your Company that the funds required for its \$45 million development plan are yet in place. Based upon statements made by Sunshine at the October 24th environmental hearing, Sunshine expects that the \$45 million funding will be available shortly.

The additional investment of \$45 million by Sunshine, when added to Sunshine's prior investment and the cost of constructing the Burgin Mine and Mill to Kennecott under the latter's earlier lease, will bring the total capital investment on Chief's Burgin property to approximately \$100 million.

As your management previously advised Chief Shareholders, if substantial royalties are received by Chief from Sunshine, it is your Management's intention to have the Shareholders directly participate by means of dividend distributions.

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Sunshine has also reported to your Company that prospects are good for reopening the Trixie gold mine. The Trixie Mine is leased to Sunshine under the Tintic Unit Lease in which Chief has the major

royalty interest. When the mine was in operation, the Trixie produced gold ores that were sold to Kennecott for use as a fluxing agent at Kennecott's Utah Copper Division smelter before the Division closed down in 1985; the Utah Copper Division is expected to reopen in mid 1987.

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During the summer of 1986, an angle drillhole from the surface was drilled by Chief in the Homansville area of your Company's property. The drillhole's objective was to attempt to determine the width of the mineralization of a prior drillhole (ET-148) that intersected 55 feet of gold mineralization between 1,132 and 1,187 feet assaying at an average of one-third ounce of gold per ton. The drillhole (CFC-1) was lost in fractured ground 70 feet above the ET-148 mineralized intersection. Drillhole CFC-1 encountered a low grade gold showing of 0.015 ounces per ton at the bottom of the hole at the point it had to be terminated. The drilling of a second angle surface drillhole (CFC-2) will commence shortly.

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Your Management views Sunshine's success in obtaining the requisite permits for the Burgin Mine as a particularly important event for your Company and we shall continue to keep you apprised of Sunshine's progress at the Burgin.

Sincerely yours,
LEONARD WEITZ
Chairman and President

October 31, 1986